

FOR OFFICIAL USE ONLY

JPRS L/10388

15 March 1982

# West Europe Report

(FOUO 16/82)



FOREIGN BROADCAST INFORMATION SERVICE

FOR OFFICIAL USE ONLY

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

COPYRIGHT LAWS AND REGULATIONS GOVERNING OWNERSHIP OF  
MATERIALS REPRODUCED HEREIN REQUIRE THAT DISSEMINATION  
OF THIS PUBLICATION BE RESTRICTED FOR OFFICIAL USE ONLY.

JPRS L/10388

15 March 1982

## WEST EUROPE REPORT

(FOUO 16/82)

### CONTENTS

#### ECONOMIC

Budget Speech to Commons by Chancellor of the Exchequer (Geoffrey Howe; THE TIMES, 10 Mar 82).....	1
---	---

- a -

[III - WE - 150 FOUO]

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

ECONOMIC

UNITED KINGDOM

BUDGET SPEECH TO COMMONS BY CHANCELLOR OF THE EXCHEQUER

PM101017 London THE TIMES in English 10 Mar 82 pp 8-10

[Unattributed Parliamentary Report on Annual Budget Report Delivered to British House of Commons on 9 March by Chancellor of the Exchequer Sir Geoffrey Howe: "Strategy Directed to Helping Industry, Jobs and People"]

[Text] Sir Geoffrey Howe, Chancellor of the Exchequer, opened his speech by paying tribute to Lord Butler whose death had been announced earlier in the day. He recalled that it was almost 30 years to the day since Rab had introduced his first budget and there were now only a handful of present members who were present on that occasion.

It was an historic occasion because it marked the end of the transition of the economy from war to peace and the beginning of the prosperity which was a feature of the 1950s and 1960s. That had been the first of four budget speeches and with the exception of Mr Denis Healey, Lord Butler was the longest serving chancellor since the war.

The tradition has emerged since Rab's time that the budget speech should be composed in some sense as though it was a detective story with many lengthy passages of exposition before the denouement. It was supposed to have something to do with waiting for the markets to close.

Having listened to a good many of those annual rituals, since first I entered the house, the thought has occurred to me--as no doubt it has to other--that perhaps an element of tantalising suspense was thought desirable to keep the attention of the MP's to fever pitch.

At any rate, I propose to break with that tradition; and to tell the house, without more ado, that in this budget I shall be proposing substantial reductions in taxation, while at the same time reducing the government's borrowing requirement.

This will be a budget for industry--and so a budget for jobs. But it will be a budget for people as well. It is a budget that will strengthen the foundations of economic recovery.

To set my proposals in context, it is necessary to start with a word about the past. Within the memory of every member of this house, almost everyone in

FOR OFFICIAL USE ONLY

this country took it for granted, for example, that our buses, cars, or motor cycles were made in Britain, from British steel. Most of the world's finest ships were still being built in our yards.

It is only 11 years since the Erskine Bridge over the Clyde was completed--to a design which would allow to pass below it a steady line of cunarders from John Brown's world-beating yards at Clydebank. So until quite recently we took for granted one of the highest living standards in Europe, if not in the world.

But by 1978, all that had changed. We had seen inflation go above 15 percent and unemployment close to 1.5 million. Less than half the new cars bought in Britain were made here.

Instead of building three out of every 10 merchant ships supplied to the markets of the world, as we did just 25 years ago, we were building only three out of every 100. Our share of world trade had been halved. And living standards in several European countries were at least half as high again as ours.

UK Problems

We had been paying ourselves too much and producing, and selling, too little. During the 1970s money incomes had gone up 20-times as much as real output. That was a sure recipe for inflation, lost markets, and lost jobs.

Through all this, of course, many companies, many individuals, continued to record outstanding successes. But all too often they were swimming against the tide. For our overall economic performance had become one of the weakest and most inflation-prone of all the major industrial countries.

At the last election we made all this very clear. We made it plain too that reversing this decline would require a major effort, that would need to be sustained over the lifetime of more than one parliament. And so it will be.

But this country's problems are not ours alone. In the summer of 1979, the whole world was hit by the fresh surge of inflation and renewed recession that followed the second huge increase in the price of oil. The average price of a barrel of oil last year was \$34. That was 26 times as much as in 1970, when it cost only \$1.30.

The oil shock made the task of restoring our economy both more urgent and much more difficult, and it coincided with the surge in pay, and public spending, which the outgoing government bequeathed to us.

So, in spite of North Sea oil, Britain entered the recession in poor shape, and rather earlier than other major countries.

Britain has, therefore, suffered worse than many. But we have not suffered alone. In the United States, in France, and in many smaller economies, unemployment has been rising sharply. In Germany last year, the number rose

FOR OFFICIAL USE ONLY

by over half a million. There are now about 26 million people out of work in the industrial countries.

Even so, most governments have reacted by continuing to give priority to the fight against inflation. And they have been making progress in that fight. But the battle is by no means won. So the outlook for the growth of world trade remains subdued.

It is in the light of this international environment that British policy has to be fashioned. All too often people still talk--and behave--as if British government decisions alone were all that mattered for the British economy, and as if we could protect or subsidise ourselves against the impact of our competitors or the decisions of other governments.

Yet the house knows how important for the United Kingdom are the policies of the OPEC countries in the world's oil markets, of the United States in relation to economic activity, inflation and interest rates throughout the world, and of Japan for the balance of world trade.

I shall have something to say later on about the impact of recent changes in the oil market. They are likely to have an encouraging effect on the international outlook for prices and output, and, in the medium term, on the stability of interest rates and exchanges rates. But at present interest rate volatility is causing understandable concern.

At a time of growing international tension, the United States is shouldering burdens for the defense of freedom for which all of those on this exposed flank of Europe should be grateful. The United States Government is also showing admirable commitment to the maintenance of monetary disciplines.

And for that too, we should be grateful. For American inflation affects us all, because of the importance of the United States and of the dollar in the world's economy.

We and our other friends have, therefore, a legitimate interest in the success of the United States administration in reconciling its spending obligations with its own responsible pursuit of monetary discipline. If that success were only partial, there would be a risk of continuing high interest rates, which would be damaging to recovery--in the less developed world as well as in the industrial countries.

As I have told the house on a previous occasion, there is no reason to suppose that we in this country could insulate ourselves from such pressures by the simple step of participation in the European exchange rate mechanism. That has not been the experience of the existing participants.

Nor would concerted intervention in exchange markets be able, for any length of time to contain the movement of funds that can be generated by the widening of interest rate differentials.

There is therefore, all the more reason for the closest possible understanding between those responsible for managing the major economies. For as I have

FOR OFFICIAL USE ONLY

said their policies can all have a direct and often speedy, impact upon each other. We in this country must do our best to exercise our influence on the policies of our allies and associates. Both directly and through the European community, the Commonwealth, OECD and the International Monetary Fund.

And we do. That is why I attach so much importance to the regular meetings of community finance ministers, and of the World Bank and the fund, and why I look forward to welcoming to London this summer my counterparts from throughout the Commonwealth.

But let no-one pretend that we could expect to exert any influence at all if our own policies failed to command respect abroad.

It is however widely recognised abroad--though not always by some at home--that in the last three years we have made substantial progress in tackling our long-term problems.

Thanks to last year's budget, public borrowing has gone down as a percentage of gross domestic product, giving us interest rates lower than they would otherwise have been. In the six months following the budget, our rates were on average four points below American and French levels, and on a par with German rates, in spite of the difference between German and British levels of inflation. And output started rising from the middle of the year.

Inflation has been almost halved since the spring of 1980. It should be in single figures during this year, and lower still in 1983.

Productivity has been rising sharply. In manufacturing industry last year, output per man rose by about 10 percent.

Lower pay increases, combined last year with fast productivity growth, meant that unit labor costs in manufacturing rose hardly at all. Our performance was comparable with Germany and Japan, and better than all our other major competitors.

And exports were rising again by the end of 1981. In the last four months, their value and volume was well up on a year earlier. Business surveys, and most economic forecasts, point to a further rise over the next year.

In the economy as a whole, we now expect it to grow by 1.5 percent in 1982 and by rather more in 1983.

This gives the lie to all those who argued, not least at the time of last year's budget, that our policies were foredoomed. The recovery that we foresaw, and worked for, is now taking place. My aim in this budget, is to nurture and help sustain it.

I shall start by discussing the central issue of unemployment. Helping industry to become more competitive is the best way of creating future employment. But there is a clear case for direct action by government as well. I shall have a new proposal to bring before the house.

FOR OFFICIAL USE ONLY

I shall then have something to say about monetary policy, and the level of government borrowing in the year ahead.

Finally I shall come to the tax and other measures which we intend to take, primarily for the benefit of industry and jobs.

Jobs and Pay

So, I begin with unemployment. To have millions of people at a time without work, many of them for long periods, is a tragic loss to the community. To be unable to find work is an affront to personal self respect. This waste of human resources is today the misfortune of many societies besides our own. It is a cause of deep concern to every member of this house.

It is no service to the unemployed to suggest that there is any swift or simple remedy.

For years, for example, it has been argued--it is still argued today--that we could get unemployment down, if only we were less concerned to fight inflation. The right dose of relation, more generous public spending, so the argument runs, would soon see unemployment tumbling down.

Would that it were so easy! But successive governments for 20 years have been tempted to act on that advice. And with what result? All the time the tide of unemployment has been rising insistently from one business cycle to the next.

The truth is that "reflation" does not create jobs that last. In the longer run, it helps to destroy them.

If more public spending was the proper engine for growth and jobs, Britain would now lead the world in both. Yet in fact unemployment today is almost eight times higher than twenty years ago.

The unemployed deserve a more considered response than that! One that is based on analysis of the root causes of the social blight of unemployment.

So I want to remind the house once more of two figures that virtually tell it all. Since 1960 the real purchasing power of the average citizen in Britain has risen by over two-thirds. But the real rate of return on the capital employed in Britain industry has fallen by five-sixths. In other words, our present living standards have for years been plundered from the store of investment for the future.

Nor have we put to good use the investment that has been made. Too often we have tried to mitigate the inescapable consequences of poor productivity and shrinking international competitiveness, by clinging to manning levels that could not be sustained.

We have only to recall the history of the British Steel Corporation. Had we not, throughout the middle 1970s, put off the painful choices, the corporation



FOR OFFICIAL USE ONLY

and those who work in it would have faced the current slump in world demand for steel in far better shape to weather it.

Far fewer jobs would have been lost. Acquiescence in poor productive performance, and overmanning, may put off the evil day. But it only makes the inevitable adjustment all the harder when it comes, as come it must.

And so today we face the huge task of helping to create the conditions in which the unemployed can obtain work, in jobs that will last. And, as a vital step in this, encouraging wages to be at a level which will enable these, more secure, jobs to be created. My principal budget measures will help us in the right direction.

Some of the obstacles to fuller employment have been created by successive governments. Actions taken with exactly the opposite intention have often had the effect of keeping people out of jobs, actually adding to unemployment.

This government has taken action to remove a number of these obstacles. We are seeking, by our employment legislation, to create a more reasonable balance of bargaining power between the partners in industry. But in truth we need much wider change than can be brought about by government or parliament alone. We need a clear-sighted change in our national understanding of the problem. And then a much more practical, more flexible approach.

The key point is this. Somewhere in the gap between the levels of income which we pay to those out of work and the earnings enjoyed by those who have a job, are rates of pay which those now out of work would be glad to take, if they had the chance. But convention and a narrowness of vision prevent those bargains being struck.

When jobs are in abundance, any employer will make sure that he keeps up with the market, by offering high enough pay to recruit and retain the workers he needs. And trade unions will naturally encourage him.

But when business is tight and jobs are scarce, the same employer owes it to the unemployed, as well as to his own employees, to react to the changed market, to pay at rates which leave room for him to earn enough for further business and further investment--and for new jobs.

In this situation too, trade unions have--or should have--exactly the same interest. That is the best service that any employer or union leader can offer to the unemployed.

Attitudes are changing in this direction. And so prospects for employment are improving. But it will take time.

That is why we have already committed substantial sums for special employment and training measures to help those hardest hit. Our plans for 1982-83 provide nearly 1,500m pounds for special employment and training measures. By 1984-85, its first full year, we plan to spend over 1,000m pounds a year on the new youth training scheme alone--a major advance for school leavers who cannot find jobs.

FOR OFFICIAL USE ONLY

A number of these measures--for example, the young workers scheme--are intended to help the labour market work more flexibly, to help make wage levels more responsive to economic reality, and so lead to the creation of lasting jobs.

We should all like to do more, within what the economy can afford, to reduce the continuing personal burdens of unemployment. It is clearly right to do all we can for those obliged to spend a long time without a proper job.

We can all see, in our local communities, tasks of environmental improvement, or of bringing help to those in need, that are crying out to be performed. Lord Scarman rightly drew attention to this in his recent report. He pointed out that there could be great advantage in schemes for socially useful activity, in place of current unemployment and social security arrangements.

Most people believe--certainly this government does--that it should be possible to take further constructive action along these lines. Let me give the house some indication of what we now have in mind.

The central idea would be to give those who have been on the unemployment register for some time the chance to work for the benefit of their own community, while still getting broadly the equivalent of their benefit entitlement plus an addition for expenses and the like.

They would remain free to take a regular job if it came along, and it would be for them to decide whether or not to participate in such a scheme.

This concept may be unorthodox. Certainly it is no substitute for long-term jobs. But in today's world it makes a lot of practical sense. The government would like to see it tried, to see it carried through successfully, on a wide, indeed a nationwide, scale, with people working on non-profit-making projects brought forward by local sponsors of all kinds, including voluntary organizations and the churches, and indeed local authorities.

The Secretary of State for Employment (Mr Norman Tebbit) is, therefore, asking the manpower services commission to work up urgently a flexible and voluntary scheme on these lines, so that the government can take firm decisions in the early summer on a new initiative for the commission to run alongside the present community enterprise programme.

We shall look for the commission's advice on what is possible, but, for illustration, net additional expenditure of some 150m pounds a year excluding supervision costs ought to be able to support around 100,000 places.

That would be excellent value for the taxpayers' money--value for the community and constructive opportunity for those who choose to take part. We should indeed be ready to back this kind of development on an even larger scale, if the demand is there.

The government hopes that all those in the community who could play a part in promoting this scheme will give it their early and careful consideration. And I hope that this new initiative will also be welcomed in all parts of the house.

FOR OFFICIAL USE ONLY

Monetary Policy

I propose next to describe to the house how monetary policy will operate in the year ahead. I shall nevertheless, do so as briefly as I can, to avoid trying the patience of the house with detail. The technically-minded will find ample solace in the lapidary prose of the red book.

Ever since the collapse of the Bretton Woods system of fixed exchange rates in 1971, the need to control the money supply has been accepted world-wide. In this country, published targets for monetary growth were initiated by my predecessor in 1976, the year he had to seek help from the IMF.

Then as now, monetary control was supported by progressively lower public borrowing. I am sure that he was right to be converted to monetary and financial restraint, to persuade individuals and companies alike that inflation would come down.

The medium term financial strategy which the government launched two years ago is an extension of this approach.

It has helped us to reduce inflation, and will continue to do so. We now have a real prospect of sustainable recovery. It is clearly right to maintain the strategy. Of course it is right to adjust, in the light of experience, the way we pursue it.

But maintain it we must, for it establishes the financial framework within which day to day policy decisions are taken.

In last year's budget speech, I emphasised that no single measure of money can fully describe monetary conditions--they must be assessed in the light of all the available evidence. And this remains the basis of our policy.

As intended, the overall effect of policy in 1981-82 has been to maintain downward pressure on inflation. Sterling M3 has grown faster than the target set a year ago.

This was due partly to the civil service strike. It has been affected to be structural changes in the market place--such as the rising market-share of the banks--which could have long-term affects.

The growth of the wider measures of money probably also reflects greater demand for liquid assets as a medium for saving. This too could last for some time. So though the stock of broad money is higher than originally expected, our judgement is that this is consistent with maintaining the steady pressure needed to achieve a downward trend in inflation.

Certainly, the evidence as a whole does not suggest loose monetary conditions.

As in several other countries, the narrow aggregates have grown more slowly than the wider ones. The effective exchange rates have been high--both in nominal and in real terms. The price of some important assets, for example houses, has been constant or falling.

FOR OFFICIAL USE ONLY

I have taken account of these factors in setting somewhat higher ranges than were suggested for Sterling M3 in last year's red book. The target range for 1982-83 will be 8-12 percent. This adjustment in the monetary target does not imply any relaxation of purpose. On the contrary, it is a recognition of the pace of progress thus far, and, in the light of that, our judgment that the new ranges will be consistent with continued progress against inflation.

The new target represents a realistic restatement of our determination to maintain a responsible monetary policy. It should be consistent with growth of money GDP at 10 percent a year, with continued progress against inflation, and with a strengthening recovery of the real economy.

We shall continue to monitor a range of indicators. To make more explicit the way in which we do this, the ranges I have just announced will apply to both the broad measures of money--Sterling M3 together with PSL2--and the narrow measure, M1.

The exchange rate also normally gives useful information on monetary conditions. For while the government has no target for the exchange rate, its effect on the economy and, therefore, its behaviour, cannot be ignored.

Evidence on all these variables will continue to be taken into account. Policy decisions will be aimed at maintaining a monetary environment conducive to the reduction of inflation.

Targets for the years after 1982-83 will be set nearer the time. Slower monetary growth is central to the medium term financial strategy. The path for further reductions in the rate of money growth from year to year is illustrated in the budget red book. The ranges have been constructed on the assumption that there are no major changes in the exchange rate from year to year.

What I have just described provides the framework for continuing the conquest of inflation. We are winning the battle. We are determined to see it through.

#### Monetary Control

I ought also to mention changes which have been made over the past year in the techniques of monetary control. From last August, minimum lending rate ceased to be posted.

The main purpose of this change was to allow market forces a greater influence on the structure of interest rates, and to allow rates to be adjusted more promptly in response to changing economic conditions. These objectives have been met. The new arrangements have coped successfully with some severe swings both in the international markets and in the money markets here at home.

We have also been working to even out the flow of revenue over the year, in order to ease the problems for money market operations and monetary control generally.

FOR OFFICIAL USE ONLY

Let me give three examples. Over the last nine months, customs and excise have taken steps, with the agreement of the companies concerned, to secure a more even monthly flow of VAT into the Exchequer, by adjusting the quarterly dates on which certain traders are required to account for VAT.

Second, we are seeking a smoother payment of the building societies' composite rate tax.

Finally and most important, the proposals for oil taxation which I shall describe later, will spread the payment of petroleum revenue tax more evenly over the year.

A central element in the government's financial policy is that the gap between public sector spending and revenue should be financed in a way that is consistent with our monetary target. We have therefore greatly improved the balance of government funding.

In 1979-80, when the PSBR was similar to this year's, sales of gilt-edged stock were more than eight times larger than the contribution from national savings. This year the ratio was down to about 2 to 1. National savings have exceeded their target, which was raised to 3,500m pounds last autumn.

I congratulate the department on achieving these higher inflows through increased efficiency, while making its contribution to civil service staff reductions.

Interest rates have come down since the current national savings certificate was introduced.

It will therefore be withdrawn from tomorrow (Wednesday) and replaced as soon as possible by a new savings certificate offering a lower but still competitive rate of return.

New sales of gilts to the public in the past year have not needed to be more than about 7,500 million pounds, with less emphasis on conventional long-dated high-coupon stocks. In our funding policy we have demonstrated our confidence in our policies for reducing inflation. Last year I announced, as one part of our policy of diversified funding, the introduction of indexed gilt-edged stock. Over the past year, sales of this indexed stock amounted to some 2,500 million pounds.

The right to buy this indexed gilt was restricted to pension funds and certain other institutions in respect of their UK pension business.

I have now decided to remove this restriction. The Bank of England is announcing this afternoon a new issue of indexed stock on an unrestricted basis.

The restrictions on the existing indexed gilts already in the market will also be removed today. The house may recall that the original prospectus for these stocks itself provided for the possibility of removing the restrictions.

FOR OFFICIAL USE ONLY

This broadening of the market should increase the usefulness of indexed gilts as a funding instrument.

Our policy of diversified funding will continue next year, with contributions coming from indexed gilts, conventional gilts and national savings. In the case of national savings, the target for 1982-83 will be 3,000 million pounds, just a little below the figure for last year.

Borrowing

As well as setting a proper framework for money supply growth, the MTFS sets out the government's views on the proper level of public borrowing in the years ahead. This cannot make excessive demands on the funds available without putting upward pressure on interest rates. That is what governments in other countries have found out, to their cost.

Recent experience throughout the world exposes the myth that big budget deficits are good for growth and employment. On the contrary, a responsible fiscal policy is essential for both.

Last year I budgeted for a PSBR of 10,500 million pounds. Since then output has moved as broadly as expected at the time of the last budget, and the 1981-82 PSBR is still on track for the forecast outcome.

Some argue that our fiscal policy is excessively tight, once account is taken of the effects of the recession. I do not accept this. The acid test for the PSBR is the level of interest rates at which it can be financed.

My budget decisions last year took account of the recession, and in assessing the impact of fiscal policy on the economy it is actual spending and tax payments that matter--not hypothetical estimates of what they might have been, if the world were somehow different.

But there are some who say that our interest rates are really determined in New York anyway; and hence that the amount that we decide to borrow is neither here nor there. Such reasoning is mistaken, and conclusions drawn from it dangerously wrong.

Of course, it is true that international interest rate movements affect the price that we must pay for money borrowed here. But that in no way diminishes the responsibility upon us to choose policies likely to hold our interest rates in the lower part of the international range.

Let us remember what happened last autumn. We could not resist the pressures of rates rising sharply all around the globe: we would not have been able to do so whatever the level of our own domestic borrowing.

But because of the firm line taken in my last budget, our own interest rates, even after the increase in the autumn, did not soar to the levels reached in the financial markets of a number of our competitors.

FOR OFFICIAL USE ONLY

Had I, last March, thrown caution to the winds, our rates of interest would not have come down last spring, and would have had to go up far higher last autumn. Indeed the 10,500 million pound PSBR set for the year now ending, and the determined measures we have taken to achieve it, have again been helping us in recent weeks to bring down the cost of borrowed money.

The fact is that while there are limits to the influence we can have on the world background, we can do something more directly about our own borrowing. The larger the PSBR we start with, the higher the interest rates we shall end up with and the opposite is also true.

In coming to a judgment about what we can responsibly plan to borrow in the next financial year there is one further international dimension which I cannot ignore: the recent fall in oil prices around the world.

I cannot stress too strongly that a lower level of oil prices, if it is sustained, is basically good news for Britain and the world. It helps to lower inflationary expectations. It makes room for a faster growth in output, consistent with the proper monetary discipline which is now so widely applied.

And as the balance of earning power between the advanced industrial countries and the oil producers undergoes some correction, the weight of highly mobile financial surpluses, which have been such a destabilising influence on world capital markets in recent years, is likely to be diminished.

For this reason, the prospects for international inflation, for interest rates, for growth, and for exchange rate stability have all improved in recent weeks.

But, for my budget judgment, this does to some extent work both ways. My task has in part already been done for me. A drop in oil prices affects our own economy in much the same way as a cut in indirect taxes, or excise duties, or national insurance surcharge.

Lower oil prices reduce costs and prices all round. They leave people in this country with more money in their pockets to spend on other things. They lower the costs of production and distribution. And in addition--which a cut in our own tax-rates cannot do--a fall in the world oil-price promises to increase activity worldwide, and with it the purchasing power of many of our traditional customers in the non-oil developing countries.

But that is not the whole story. When the price of oil drops our tax take from North Sea production is correspondingly reduced. Other things being equal, this would increase the borrowing requirement, though not by as much, since the beneficial effects of the oil price cut boosts our revenues from other forms of activity. The prospect is bound to be uncertain.

But in determining the size of the PSBR for the year that starts in April I can assure the house that I have made allowances for these factors as we know them today.

FOR OFFICIAL USE ONLY

Obviously, if there was to be a prolonged fall in the oil price below the level we currently expect, then both the beneficial effect on activity and domestic prices and the revenue-loss effect on the PSBR, would be increased. It would be wholly irresponsible for me to rule out the possibility of having to take action to correct the fiscal balance, if that were to happen.

The illustrative projections presented with last year's budget envisaged a PSBR for 1982-83 equivalent to 3.25 percent of GDP. This would be around 9,000 million pounds at current prices.

In the light of the latest assessment of the prospects I have thought it right to provide for a PSBR of around 9,500 million pounds in the coming year, equivalent to 3.5 percent of GDP.

This is about 1,000 million pounds below the expected outturn for this year. But is also about 1,300 million pounds above what the PSBR would have been next year on the conventional assumptions--that is to say if the changes to income tax and specific duties which I am proposing today were only to take account of the past year's inflation.

That 1,300 million pounds is the PSBR cost of my budget proposals in 1982-83. Their net cost to the Exchequer in a full year is over 3,000 million pounds compared with this years' tax and duty rates.

The new revenue and borrowing projects published in the red book envisage a further decline in the PSBR over the following two years to 2 percent of GDP, on the assumptions about growth and inflation which are there set out.

So the size of the government's borrowing in real terms will continue to decline from year to year. This will further ease the pressure it imposes on financial markets. And it will assist progress towards lower interest rates and lower inflation.

So much for borrowing. I now turn to expenditure.

#### Public Spending

On 2 December I announced the government's public expenditure plans for 1982-83. Today (Tuesday) we are publishing the annual public expenditure white paper. This sets out the plans for next year in more detail and also contains our provisional proposals for the two following years.

At the same time, the supply estimates for 1982-83 are being presented to the house. The house will note the new and greatly improved presentation in the white paper. I certainly find it much easier to follow.

In the last two years these documents have been published on budget day, so that all the information would be available at the same time. In this way, the budget debate can cover both sides of the account. The treasury and civil service committee is, I know, considering the handling of these matters, and I await its recommendations with interest.



FOR OFFICIAL USE ONLY

I explained to the house in December why we had decided to increase planned expenditure in 1982-83 by some 5,000 million pounds compared with the plans set out in last year's white paper.

The increases included some 1,300 million pounds of extra finance for the nationalized industries, 500 million pounds more on defence, and another 800 million pounds on special employment programmes.

They were partly offset by a general reduction in most cash limited expenditure.

Although most of the measures which I shall announce today involve reductions in taxation. I am also proposing some additions to public expenditure, totalling some 350 million pounds in 1982-83. This includes an increase of 150 million pound in the contingency reserve to accommodate some of the expenditure measures; this brings the reserve in 1982-83 to 2,400 million pounds.

The planning total for 1982-83 given in the white paper is 115,150 million pounds in cash, compared with 110,200 million pounds which is the cash equivalent of last year's projections for 1982-83. But the increases I now propose will be more than offset by other changes in costs, and the total will therefore be 114,900 million pounds.

Total public sector capital spending is next year planned to be about the same--1,500 million pounds--as expected this year. The plans allow for new investment by nationalized industries (including that financed from their own resources) of over 7,500 million pounds in 1982-83, some 26 percent higher than the out-turn now expected in 1981-82 and 40 percent higher than in 1980-81.

Taking account of measures which I shall be announcing a little later, spending on construction is expected to rise by 14 percent to 10,250 million pounds in 1983-83.

In particular housing investment, and work done on water and sewerage projects, should be higher in real terms next year than this. In all these ways the government is planning for the continued improvement of public sector services.

For the first time we have published figures for the whole period in cash. The planning totals for later years are 120,000 million pounds for 1983-84, 4,000 million pounds and 6,000 million pounds respectively, which is included in the figures for each of these years, has been set to give realistic totals in a cash planning regime.

The programme figures are provisional and will be reviewed in future surveys. The starting point will be the cash programmes resulting from this afternoon's announcements. The figures will not be automatically increased if inflation turns out to be higher than expected. Any alteration will be a matter of deliberate political decision. That is the essence of cash planning.

**FOR OFFICIAL USE ONLY**

I foreshadowed these developments in my budget speech last year. I am confident that they will help us to keep expenditure under control.

**Social Security**

By far the largest single element in public spending is social security. In 1982-83 it will account for 32,000 million pounds, over one quarter of the total.

About half of this goes to the elderly, who deserve our special consideration. This government has been determined to preserve the full purchasing power of the social security retirement pension. We shall accordingly raise the pension rates, to cover the expected increases in prices for the 12 months to next November.

When I published the industry act forecast last December, I expected that increase to be 10 percent. That was an appropriately cautious central forecast. But the outlook for inflation has clearly improved since December. My similar forecast now is that prices will go up by only 9 percent in the same 12 months period.

But I do not propose to raise the pension rates only by 9 percent. We intend also to compensate pensioners for the fact that last year's increase was based on a forecast of the rise in prices that was 2 percent below the actual rise.

Retirement pensions will thus go up next November by a total of 11 percent.

The standard rate will be increased by 3.25 pounds to 32.85 pounds a week, for a single person, and by 5.20 pounds, to 52.65 pounds for a married couple.

There is of course no government commitment to full price protection except for the retirement pension and associated benefits. During the debate on the government's public expenditure plans, we said that a decision about the 2 percent shortfall in the value of other benefits would be announced at budget time.

The main ones are unemployment benefit and supplementary allowance, sickness and injury benefit, and maternity allowance. I have received many representations that the 2 percent shortfall should be restored on these benefits also. And we have decided that it should be.

This means that the rate of unemployment benefit will rise from 22.50 pounds a week to 25 pounds for a single person, and from 36.40 pounds to 40.45 pounds for a married couple. Details of the other benefits will be announced tomorrow (Wednesday) by the Secretary of State of Social Services (Mr Norman Fowler).

We have also decided on some changes in the rules governing payment of benefits. These are in response to representations we have received, and will be widely welcomed. The secretary of state will give details in his announcement tomorrow.

FOR OFFICIAL USE ONLY

There are, however some further changes which I should announce today. First, child benefit, which is an important source of income for many, especially the lower paid with large families. From next November it will go up by 60P a week from 5.25 pounds to 5.85 pounds. It will thus have been increased by 23 percent over two years, and so fully protected against inflation.

The additional one-parent benefit will be increased by 35P to 3.65 pounds. And in the case of the family income supplement, the prescribed amount for a one child family will go up from 74 pounds to 82.50 pounds.

I shall have something to say a little later about the military allowance.

The full year public expenditure cost of all the changes in the social security which I have mentioned will be some 3,000 million pounds. The extra cost in 1982-83 will all be accommodated within the public expenditure totals I have just announced.

I turn now to help for charities.

The government is deeply conscious of the contribution to our national life that is made by our charitable organizations.

Two years ago, I introduced substantial new tax relief for covenanted donations to charities. I also doubled the exemption from capital transfer tax for charitable bequests or gifts made within one year of death.

We have been urged to relieve charities from VAT on their purchases. The attractions of this are obvious, but it raises substantial difficulties. The more one studies how it might be done--and we have looked into it exhaustively--the more inseparable appear the problems of definition, of administration, and of equity that stand in its way. So reluctantly, I have had to be satisfied with other ways of helping charities instead.

First, I propose to take the capital transfer tax exemption for qualifying gifts to charities a stage further, by increasing it, for gifts made within a year of death, from 200,000 pounds to 250,000 pounds.

Second, I intend to abolish stamp duty completely on transfers of assets to charities.

Third, as the National Council for Voluntary Organizations has suggested, I propose to remove beyond all doubt any liability to development land tax where a charity disposes of property which has been subject to roll over relief.

Taken together, those measures constitute significant new assistance to charities and voluntary organisations. They build still further upon the significant benefits which charities have derived from earlier action by this government. Our record continues to be one in which we can justifiably take pride.

I now come to the particular problem of the disabled which we have always had very much in mind. Last year, the international year of the disabled, I

**FOR OFFICIAL USE ONLY**

introduced a range of value added tax reliefs for charities concerned with the disabled. I am concerned with the disabled. I am able to announce three further measures of help.

First, there will be some extension of the existing VAT reliefs for disabled people and the charities serving them.

Second, mobility allowance. The rate will be increased--by more than the expected rise in prices--from 16.60 pounds a week to 19.30 pounds. This will mean that it has risen by over 80 percent since the government took office. This represents a considerable increase in real terms.

In addition, I propose this year to respond to a particularly important request made on behalf of the disabled to successive governments in recent years.

I propose that from 1 April the mobility allowance should be wholly exempt from income tax. This is a major step: It means an increase in net income of up to 5 pounds a week for the working disabled. They deserve every encouragement, and the change will, I know, be widely welcomed.

**Public Sector**

Turning to management of the public sector, starting with the civil service, the chancellor said: The provision and organization of welfare benefits in only one of the many tasks of government.

The whole cost of government administration does indeed impose a formidable burden upon the taxpayer. Out of total spending of 105,000M pounds in the current year, the government's running costs amount to over 12,000M pounds. The importance of keeping tight control of these costs is, therefore, manifest.

This is why we set ourselves the task of reducing the size of the civil service, from 732,000 in 1979 to 630,000 by April, 1984. We are on target. Numbers are down already by 57,000. We now have the smallest civil service for 15 years.

Local authority manpower, on the other hand, has come down by only 3 percent since 1978, less than half as much as in the civil service. The importance of further progress needs no underlining. Efficient cost control means getting pay rates right, as well as controlling staff numbers.

Later in the year, the Committee of Inquiry under Sir John Megaw will be making recommendations about civil service pay arrangements for the future. In considering their report we shall aim to be fair to public servants, and to the taxpayer.

But the government is also responsible for the nationalised industries.

In deciding how much public finance to make available to them, the government must be influenced by their performance in controlling their own costs. Every

FOR OFFICIAL USE ONLY

1 percent they save on labour costs is worth another 140M pounds that they could use for investment, or to reduce prices.

Yet even now this lesson has not been fully learnt. Seven out of every ten days lost because of strikes in the last two years were within the public sector. The continuing rail dispute, about productivity improvements and up-to-date labour practices that should have been introduced years ago, demonstrated how far there is still to go.

In the absence of increased productivity, willingly accepted, it is not easy to justify increased investment.

This is why we intend to widen the exposure of the public sector to the discipline of the market place.

One way of doing this, that has been commended on all sides of the house, is by the introduction, under the right conditions, of private capital. Those conditions must ensure fair competition with the private sector for capital. They must also ensure that the consequent higher cost of borrowing is offset by greater efficiency.

The government has now decided to accept, in principle, the proposal for British Telecom to issue a bond to raise market capital in this way. The return to the investor would be based on the profits earned by the corporation.

British Telecom will be expected, as a condition of access to market finance, to keep tariff increases at least 2 percentage points below the annual movement in the RPI, and to reduce real unit costs, in 1982-83, by a minimum of 5 percent, with further reductions to be agreed for later years.

We shall have to satisfy ourselves, in the light of market conditions nearer the time, that the bond represents good value to the government and British Telecom, as well as to the investor. Subject to that condition, the aim will be to go ahead with an initial sale in the autumn, of up to 150M pounds. This will be an important experiment in exposing the performance of a nationalised industry to the judgement of the market place.

But above all it remains our purpose, wherever possible, to transfer to the private sector assets which can be better managed there. In the private sector, businesses have to respond to consumer needs. The pressure on enterprises, formerly in the public sector, to do the same at once becomes much greater if they are transferred.

We have made considerable progress. There has been some controversy about the method of selling shares in Amersham International. But for those inclined to be wise after the event, it is worth pointing out just how much greater public interest in the sale proved to be than commentators expected when the terms were first announced.

It is, in any case, a cause for satisfaction that the great majority of Amersham employees are now shareholders in the enterprise for which they work. For the great majority of people, this is the right kind of public ownership.

Legislation is on the statute book enabling us to transfer to the private sector the British Transport Docks board, and British Airways, and to permit the sale of subsidiaries in British Telecom and British Rail. Within the last few weeks we have transferred the National Freight Company to a consortium led by its own management. And British Aerospace, and cable and wireless, are now firmly established in the private sector.

Our plans assumed that asset sales of this kind would total about 500M pounds this year. We expect to achieve that target. The government looks forward to further disposals in the next two years.

We are seeking powers to sell the offshore assets of British gas and to permit the introduction of private capital into the National Bus Company. The most important transfer will be the sale of 51 percent of BNOC's oil-producing business, for which a bill is now before the house.

I now turn to what can be done in this budget directly to benefit business, industry, and hence jobs.

Our prime purpose is to help private commerce and industry to help itself, by cutting its costs, and I have no doubt, from the representations I have received, that the single measure business would, most welcome is a reduction in the national insurance surcharge.

This surcharge was imposed and then increased by the previous government. Indeed, in their last two and a half years in office the last government increased the combined charge on employment, the employers national insurance contribution and the national insurance surcharge, from 8.5 percent to 13.5 percent.

The surcharge is of course a tax on employment. It raises products costs. It is not rebatable on exports and it either puts up prices or cuts into profits. But it is an extremely cost-effective tax. It raises large amounts of revenue, at little administrative cost. It is much easier to put on a tax of this kind than to take it off.

This government has already protected businesses, and so employment from any increase in employers national insurance contribution rates for two consecutive years. Had we not done so, employers would have had to find nearly 1,000M pounds more in the coming year than will actually be the case.

It is now time to offer more positive relief. I accordingly propose to cut the rate of the national insurance surcharge from 3.5 to 2.5 percent. This will help reduce costs throughout the economy and will be of value to all businesses, whatever their tax position.

The cut will operate from 2 August which is the earliest practicable date.

But I am anxious that industry should not suffer from this unavoidable delay. I shall therefore propose an extra half percent reduction between August 1982 and April 1983. The effect of this will be to enjoy in the last two-thirds of 1982-83 the equivalent of a whole year's reduction of 1 percent in the surcharge.

**FOR OFFICIAL USE ONLY**

This proposal is intended to reduce business costs in the private sector. However public sector employers also pay the surcharge and in order to leave them exactly where they would have been without the change, appropriate reductions will be made in the relevant cash limits and the votes of central government and the NHS, in the rate support grant to local authorities, and in the external financing limits of the nationalized industries.

The necessary changes will be announced as soon as possible. This will reduce the cost to a net figure of 640M pounds in 1982-83.

The aim of the relief I have just announced is to help business costs and employment. If it were to find its way into higher pay, that would totally defeat the object of the exercise, and would obviously have to be taken into account in future.

It is crucial that this should not happen. In proposing this reduction, we are offering business and industry, management and workforce, an exceptional opportunity to improve their own performance and prospects. I believe that they will take it.

**Indirect Tax**

I come now to the indirect taxes. I propose no change in the rate of VAT.

For the excise duties there has grown up in recent years a sensible presumption that they should be adjusted on line with the movement in prices from one year to the next. That, after all is what happens automatically with VAT and the ad valorem duties, and also to the personal tax allowances, unless parliament decides otherwise. And that is the basis of my approach to excise duty changes this year.

I start with the duty on tobacco. Last year duty was increased twice--in March as part of the budget measures and in July to help recoup the loss of revenue from the DERV duty reduction.

I have taken account of that in proposing this year an increase that is the equivalent of 5P including VAT, on the price of a typical packet of 20 cigarettes. There will be consequential increases for other tobacco products. These changes will take effect from midnight on Thursday.

Next, alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent about 2P on the price of a typical pint of beer, 10P on a bottle of table wine, and 13P on a bottle of sherry--all including VAT.

The full increase in the price of a bottle of spirits necessary to take account of inflation would have been over 50P.

However, in the light of the representations about the state of the Scotch Whisky Industry which I have received from conservative MPS representing

FOR OFFICIAL USE ONLY

Scottish constituencies and others. I have decided that it would be appropriate to limit the increase on spirits to 30P a bottle, again including VAT.

Next, the oil duties. Last year, as the house will recall, I felt it right to go some way to meet the representations made to me by MPS in favour of a lower increase in the case of DERV than of petrol, in view of the impact of DERV duty on industrial and distribution costs. I have decided this year slightly--to widen that differential.

There is a strong case for a larger increase in the petrol duty than in the other duties, for our average pump prices are currently among the lowest in the European community. They have moreover been favourably affected by recent changes in the price of oil. Pump prices have been falling rapidly.

In proposing a rather larger percentage increase in the duty on claret than on whiskey I have at no stage had in mind adding to the difficulties of the social democratic candidate in Hillhead. (laughter) I fancy he may have enough troubles of his own already.

Against this, it has been impressed upon me by a number of conservative MPS from rural constituencies in all parts of the Kingdom, that pump prices in remote areas are very much higher than those in more heavily populated areas. Yet dependence on cars for transport is greatest in the more scattered communities.

On balance, I think it would be right, at least at this stage, not to impose any real increase in the oil duties. I propose, therefore, to limit the increases in the duties on both petrol and DERV to amounts which no more than compensate for one years' inflation.

The duty on petrol will accordingly increase by the equivalent, including VAT, of about 9P a gallon or 2P a litre. This will still leave most pump prices lower than they were at the end of last year.

The duty on DERV will increase by the equivalent, including VAT of about 7P a gallon or 1.5P a litre. As almost all DERV is used in businesses, this smaller increase will help to hold down business costs.

As last year, I propose no change in the rate of duty on heavy fuel oil. I am not able, as some would wish, to cut the duty rate; but leaving it unchanged will help industry as the duty burden continues to fall in real terms.

Last year I undertook to review the rate of duty applied to aviation gasoline, or avgas.

I have given very careful consideration to the representations which I have received on behalf of air taxis, flying schools, crop-spraying and other specialist services, and from those concerned with air travel in the high-lands and islands of Scotland. I cannot accept in full the arguments which have been put to me, but I have decided that it would be right to reduce the



FOR OFFICIAL USE ONLY

avgas duty rate to one-half of that on petrol. Including VAT, this amounts to a reduction of about 32P a gallon or 7P a litre.

All these changes take effect for oil delivered from refineries and warehouses from 6pm tonight (Tuesday).

I also propose to increase most rates of vehicle excise duty. For the motorist the increase will be 10 pounds from 70 to 80 pounds. Duty levels on most other groups of vehicles will be increased by about 12 percent.

I propose to make two important changes in the vehicle excise duty on commercial vehicles. I have decided that it would offer a substantial, and justifiable, help to small and medium sized business at this time to bring the duties on about half a million light commercial vans more closely into line with those on cars.

On the other hand, it would be appropriate, in the light of the conclusions of the Armitage report, to impose on the heavier lorries--the 80,000 or so of more than 9 tons unladen weight--a licence duty which more closely reflects the actual cost which they impose on the road network.

So the duty on this category will be increased by about a quarter. These changes have effect for licences taken out after today.

The changes I propose for commercial vehicles reflect the government's intention to get a fairer balance between the taxation burden on different groups of lorries and their road costs.

I propose to take a further step in this direction by including in the finance bill provisions for restructuring the basis of vehicle excise duty on heavy lorries, to a gross weight method of assessment and for taxing all light commercial vehicles in due course at the same rate as cars.

The house will recall that the framework for this major reform of the system was set out in the 1981 Transport Act. It will involve substantial changes in the pattern of commercial vehicle taxation and I think it right that the road transport industry should have time to adjust. I therefore propose that the rates of duty on the new gross-weight basis should take effect from 1 October.

And, last of the excise duties, taxes on betting and gaming. Many conservative MPS pressed last year for substantial changes in July. I now propose no further increase in the rates of duty on general betting and bingo, both of which were increased then.

But I have decided that pool betting duty, which has been unchanged since 1974, should go up from 40 percent to 42.5 percent from 1 April. I also propose increases from the same date in the rates of duty on casinos, where I believe the existing rates are too low.

FOR OFFICIAL USE ONLY

Full details of the new rates, and other changes which I shall be announcing today, will be given in press notices.

The Chief Secretary (Mr Leon Brittan) announced last summer that customs and excise would undertake a comprehensive review of gaming machine taxation. A very large number of representations were received during the course of this review, from and on behalf of clubs, public houses, amusement arcades, and others.

In the light of these representations I have decided that it would not be appropriate to introduce an ad valorem duty on gaming machines, or to impose an excise duty on amusement machines, such as space invaders. I have also decided that duty should no longer be charged on 2P gaming machines which are mostly to be found in the seaside arcades.

However, I have decided that there should be significant increases from 1 October in most rates of the existing licence duty on 5P and 10 gaming machines.

The total effect of all these changes in excise duties will be to raise an additional 1,150M pounds in 1982-83 and 1,165M pounds in a full year.

The impact effect on the PRI will be about three-quarters of one percent. This has been fully taken into account in my forecast of falling inflation in the year ahead.

#### Oil Taxation

I have spoken of the oil duties: I now turn to the oilfields. The development of the North Sea has been a story of enterprise and success, which is almost entirely due to the skill and enterprise displayed, and risks accepted, by the private sector.

As a nation, we must never forget the great debt we owe to those on the oil rigs and elsewhere, who have been responsible for exploration and development. It is important for them as well as for the British people that the rewards should be fairly shared.

Last year, in the light of the massive increase in oil prices which had occurred in earlier years, we changed the structure of North Sea tax, to make it more responsive to changes in price. At the same time tax revenue from the North Sea was brought forward, with an increase in the total level of taxation.

I also invited the industry to suggest better ways of raising the revenue we needed. I am grateful to them, and others who have commented, for their careful and considered response.

As I have mentioned, the current fall in oil prices reduces the revenue the Exchequer receives. I recognize that it reduces the revenues of the oil companies as well--but it also reduces the tax they have to pay.

FOR OFFICIAL USE ONLY

Detailed study has convinced me that, subject to some marginal adjustment, the total tax burden is not such as to discourage exploration or development. Nor is it so high as to deprive the oil industry of a reasonable, and often attractive, yield.

In these circumstances I cannot reduce the overall tax burden to the extent that the industry would have wished. But I do agree with them on the need for some change of structure. I see, in particular, the advantage of profit-related taxes in relation to additional investment in existing fields.

The supplementary petroleum duty will therefore be abolished with effect from the end of this calendar year.

I propose at the same time that the rate of petroleum revenue tax should be increased from 70 percent to 75 percent; and that arrangements should be introduced for advancing PRT payments. Advance payments of PRT, although computed in the same way as SPD, will not be a separate tax but simply an acceleration of the existing tax.

They will thus differ fundamentally from SPD in being fully set off without limit against ordinary PRT liabilities when these arise. This structural change is one which representatives of the industry have proposed.

As from mid-1983, there will also be a monthly installment system of payment of PRT in order to secure a smoother public sector cash flow.

These changes will not affect the revenue yield of rather more than 6,000M pounds in the coming year. But in 1983-84 there will be a net cost, after allowing for the saving in interest due to the new system of installment payments, of some 70M pounds.

I have spoken earlier about current uncertainties in relation to oil prices and the future yield of tax from the North Sea. But I am aware of the concern felt by the industry about the number of changes in the regime there have been in recent years.

For this reason, my hope is that the new tax structure I have proposed will provide a more secure and stable regime for the future, permitting development to go ahead uninhibited by major fiscal uncertainties.

I propose a number of other minor changes, partly in response to the views put forward by the industry. And I propose that regional development grants paid in respect of expenditure incurred after budget day should be taken into account for the purposes of PRT and ring fence corporation tax.

We shall also need to legislate next year to deal with certain special problems affecting PRT expenditure reliefs, pipeline tariffs, and other non-oil receipts: these will be the subject of a consultation document which will be issued shortly.

FOR OFFICIAL USE ONLY

Those fiscal measures, combined with the decisions which have already announced on the abolition of the state's sole right to buy gas, and on the creation of the new private sector oil company, will provide a sound basis for another decade of successful enterprise in the North Sea.

I turn now from the energy industry to its industrial customers, to whose problems we have given a great deal of attention in recent years.

Energy Costs

Last year, I announced substantial help for industry on energy prices. The NEDC task force, which has made a valuable contribution to a wider understanding of these matters reported in November that these changes had significantly improved the position of large energy users here, compared with their continental competitors.

But we are very conscious of the problems which remain at least for some industries.

The government has accordingly discussed with the electricity supply industry their pricing proposals for 1982-83. I am glad to be able to announce that these will include new special arrangements to benefit larger users who face the greatest difficulties.

A scheme will be introduced, under which customers can gain significant reductions in their charges in return for a commitment to accept load reductions. The industry estimate that over one hundred major companies should benefit.

This will be in addition to the arrangements for electricity prices which I announced last year and which will continue this year. But both the number of customers able to benefit from the new scheme, and the extent of the benefits on average will be greater.

To pay for these measures, we are increasing the external financing limits for the electricity industry (including Scotland) by some 100M pounds in 1982-83. These costs are additional to the external finance limits shown in the public expenditure white paper.

Some large industrial users of gas face similar problems; and here, too, we propose significant relief. For contract customers the price of gas taken after the first 25,000 therms in the contract year will be frozen at the level charged on 1 April 1982. This freeze will apply until the end of 1982. The cost of this measure is forecast to be some 60M pounds.

In addition, we have asked the National Coal Board to renew the measures first announced last year, so as to avoid further increases in the list prices for foundry coke until the winter. The board's deficit grant and external finance limit will be adjusted accordingly and the cost will be met from the contingency reserve.

FOR OFFICIAL USE ONLY

Last year I announced the introduction of grants towards the costs of converting from oilfired boilers to coal. We have now decided to extend the scope of these grants to cover conversions of other industrial oil-fired equipment and conversions of gas-fired equipment to coal.

The scheme will also now cover conversions in service industries as well as in manufacturing. At the same time we are reducing the qualifying threshold for the total project cost from 25,000 pounds to 15,000 pounds, this will help a large number of smaller firms, particularly in the horticultural industry. The cost of these changes will be met from within the 50M pounds allocated for this scheme.

Taken together with the measures announced in my last budget, these three measures--special arrangements for large electricity users, the freeze on gas contract renewal prices and on list prices for foundry coke--should reduce the energy costs of British industry, compared with what they otherwise would have been by over 250M pounds. Over the two years concerned, they represent a serious and significant response to the industry's representations on energy prices.

I turn now to the continuing effort to encourage innovation in industry. If we are to win still more worthwhile orders both at home and abroad, British industry must continue to improve its design and production techniques.

There is no more important area to which this applies than micro-electronics and information technology. The government has already given a lead by designating 1982 as information technology year. We have already authorised investment of well over 2,000M pounds in the British telecommunications network in the coming year--more in real terms than at any time since 1974-75.

This investment will breed new services, new firms and new jobs. So will the development of alternative and competing services for electronic communication, such as the new mercury network for business.

Because new technology is important on a wider front, I propose to make a further allocation for this purpose. The Secretary of State for Industry, (Mr Patrick Jenkin) will shortly be announcing a series of new and expanded schemes. These will include additional assistance towards space technology, and production engineering--including the introduction of a special scheme of assistance to small engineering firms.

And the 100 percent first year allowances for leased television sets, which were due to be phased out this June, will be extended for a further year for sets incorporating a teletext facility. This will encourage the wider use of a leasing product of British information technology.

These measures will be worth 130M pounds over three years.

FOR OFFICIAL USE ONLY

Final Justice

I have now virtually completed my review of proposals involving spending, and spending foregone. I have described my decisions on excise duties, and the major cut in national insurance surcharge which we propose. In the remainder of my speech I shall be dealing primarily with fiscal issues.

I wish to deal first, and briefly with the key issue of fiscal justice. All chancellors of the Exchequer come under pressure every year to remedy hardships and anomalies in the tax system. This year has been no exception and by the end of this afternoon I shall have been able to meet a large number of such points.

But there is another side to this medal. Justice is indivisible. Justice to the taxpayer must be matched by justice to the Exchequer. The revenue must be protected and maintained if the burden is not to fall more heavily on the general body of taxpayers.

We must all be glad to see the courts adopting a new approach towards artificial avoidance schemes. As a direct result, we expect to collect a very large sum of tax, possibly as much as 400M pounds, which might otherwise have been avoided.

The proper vigilance of the revenue departments in these matters needs to be matched by the determination of parliament to legislate where this is needed. Last year I asked parliament to do so on a number of important matters. This year I propose further action.

We must, however, tread a very careful path between safeguarding the interests of the taxpaying community on the one hand and avoiding economic damage of the other.

This need for caution applies, for example, to the proposals affecting the tax liability of companies engaged in international business, on which the inland revenue put out consultative papers last year.

Those papers and the draft clauses dealing with these matters have caused considerable anxiety. In the case of company residence the primary objective was simply to replace the present ill-defined rules with ones which were clearer and more certain. This was not an attempt to extend the coverage of the tax. But I accept that some people might be adversely affected. The matter therefore needs to be looked at again.

The problem of tax havens was a different one.

If one has an open world in which there is free movement of capital and of persons--something which in itself is a good thing--this offers increased opportunities for tax avoidance. We must be very careful not to prejudice legitimate business, particularly because of the importance of London as a financial centre.

FOR OFFICIAL USE ONLY

We need to find the right middle road, and one which is accepted as right. It is to this end we shall be directing our efforts. Clearly this precludes legislation this year on any of these topics.

I now turn to the areas in which I do propose to take action in this finance bill.

First, international leasing. At present, assets leased abroad attract capital allowances at what is, in many cases, a favourable rate of 25 percent per annum. Leasing of this kind has grown sharply.

Moreover, there is evidence of United Kingdom tax incentives being used to subsidize deals between other countries--deals by foreign businesses in foreign made goods, competing with our own home producers. I therefore propose for new commitments after today, to reduce from 25 percent to 10 percent the rate of writing down allowance for all assets leased abroad.

Second, films. Investment in films qualifies for 100 percent first year allowances.

As with other capital allowance provisions, these investment incentives are available without regard to whether the film is made in this country or overseas. There is evidence that schemes for investment of this kind--primarily in foreign-produced films--are currently being marketed actively in this country. The potential loss to the revenue is very great.

I propose, therefore to withdraw the 100 percent first year allowance for films and to introduce in its place a provision which will in broad terms, allow companies to write off expenditure over the income-producing life of the film.

A change of this kind could have serious implications for the British film industry, if introduced immediately, at a time when there are signs that it is just beginning to establish a new and more competitive position. I intend therefore to introduce transitional relief for British-made films--broadly speaking, films registered for the purposes of the EADY level arrangements--for a 2 year period. I shall be consulting the industry about the form which this assistance might take.

Third, shipping. Here again, arrangements are being made to exploit investment incentives for the benefit of foreign businesses.

In this case, a typical arrangement may involve a foreign shipping company chartering a vessel built abroad from a company specially set up in the United Kingdom to attract 100 percent capital allowances.

I propose to reduce the rate of capital allowance in these cases to the 10 percent rate for international leasing generally. I am concerned to safeguard the position of British companies chartering their vessels abroad in the course of a genuine shipping business, and I shall be discussing with the shipping industry how best to do this...

FOR OFFICIAL USE ONLY

On each of these three subjects--international leasing, films, shipping--the changes will take effect from today. I shall be bringing forward the necessary detailed legislation at committee stage.

Fourth, so-called Section 233 loans. These are contrived arrangements under which interest paid on certain bank loans escapes liability to corporation tax in the hands of the banks. In future these payments will be taxed like other interest payments. The new rules will apply from today. In the case of contracts entered into before today, the new rules will apply to payments due on or after 1 April 1983.

Fifth, by taking advantage of double tax relief banks can lend overseas at abnormally low interest rates at the expense of the UK taxpayer.

I propose to include in the coming finance bill measures to stop this exploitation of our tax system. They will take effect from 1 April 1982 but in the case of existing loans will apply only to interest arising from 1 April 1983.

While, the measures I have announced will help, we shall need to give much further thought in the coming year to the problem of how best to ensure a sufficient contribution to tax revenues from the banking sector. The problem is not an easy one, as the benefit of some of the devices I have just described is shared between the banks and their domestic customers.

There is a danger that measures directed to ensuring that the banks pay a more equitable amount of tax are all too simply by-passed by the banks shifting the burden on to their customers. For these reasons I have foreborne from taking action earlier, but as Burke said "there is however a limit at which forbearance ceases to be a virtue."

On a different note, a number of building societies have recently issued a new form of negotiable bond. I have no reason to believe that any improper use has been made of these new bonds. But as an obvious precaution, I propose to extend to these bonds, from today, the existing provisions dealing with the "manufacturing of dividends."

I also propose some tightening up of the law relating to very large golden handshakes. The tax relief will be withdrawn on a sliding scale with the effect that the excess of sums over 75,000 pounds will be fully charged to tax.

We owe it to the ordinary taxpayer to take action in these fields. It is on him that the cost would fall if we did not do so.

Construction

I now revert to my principal theme: Help for business and industry, and hence for jobs and people. Last year's budget contained a number of measures to help the construction industry, an industry which can make a particularly significant contribution to the creation of new jobs. It is, accordingly, right to give it further help this year.



**FOR OFFICIAL USE ONLY**

As I have already mentioned, our new public spending plans provide work for the construction industry in 1982-83 worth about 10,250M pounds--an increase of 14 percent.

This year local authorities have greatly underestimated the success of our policy of selling council houses and land. The extra revenue which this is bringing in has not been spent.

For 1982-83, they have been assured that they can spend up to a total of some 3,000M pounds on housing. This will include about 1,000M pounds of funds which they can expect to receive mainly as a result of the success of the right-to-buy legislation. This should allow an increase of nearly a third in the scale of their capital spending, compared with what they seem likely to spend in 1981-82.

In addition I now propose a change for 1982-83, designed to help private homeowners whose houses fall well short of today's standards.

The value of grants given for major repairs, and for the provision of basic amenities in the home, under the home improvement grant system, will be increased for a limited period, to a maximum 90 percent of the eligible cost, instead of the 75 percent currently available.

This increased rate of grant will apply only to applications received before the end of 1982. The purpose is not to add to longer term demands on the industry but to encourage the take-up of immediate spare capacity. We also intend both to enable more people to get grants for home insulation and to increase the value of these grants.

To pay for these changes and to encourage local authorities to make more general improvement grants available, their capital allocations in 1982-83 will be increased by 100M pounds. This will be over and above the expenditure provided for in the white paper.

The Secretary of State for the Environment, Mr Michael Heseltine has already announced measures for 1982-83 to give priority to inner city projects that offer the greatest degree of participation by the private sector.

Building on this, up to 70M pounds of the provision for the urban programme and for derelict land reclamation in 1983-84 will be earmarked for projects that encourage participation by the private sector. We have also decided to offer further encouragement to the private sector and nationalised industries to bring derelict land into productive use. We shall increase the grants payable, from 50 percent of the cost of reclamation to 80 percent, in assisted areas and derelict land clearance areas when legislation can be brought forward. The cost will be contained to new private investment in housing for rent.

I now propose to introduce capital allowances, at the rate of 75 percent for the first year only, for expenditure on the construction of properties wholly for letting as assured tenancies by bodies approved by the secretary of state.

FOR OFFICIAL USE ONLY

The scheme will run for an experimental period of five years. Allowances may be claimed for expenditure incurred as from today.

In my budget two years ago, I introduced the small industrial workshop scheme, under which industrial buildings allowance can be claimed on the construction of small buildings at the rate of 100 percent. The scheme has been a resounding success.

More than 5,000 new workshops have already been constructed for letting to small businesses, at an estimated Exchequer cost, spread over several years of 125M to 150M pounds.

The scheme has succeeded in increasing the stock of industrial workshops at or near the upper size limit. But there has been relatively little investment at the very small end of the range. I therefore propose to extend the scheme for very small workshops, of not more than 1,250 square feet, for a further two years, until March 1985.

I also propose to bring within the scope of the industrial buildings allowance certain kinds of servicing, repairing and warehousing activities. This too will improve the small workshop scheme.

I also propose to deal with the liability to VAT of certain kinds of building alterations, where there has in the past been serious doubt about what was liable to charge.

A recent judgement of the House of Lords would have led, if applied in its entirety, to VAT being charged at the standard rate on a range of non-structural building alterations which had previously been free of charge. Though clarifying the law, this judgement would have imposed an extra 80M pounds of tax on the industry, which it can ill-afford at present.

So I intend to re-establish the clarity needed, but in a way which will relieve the industry of all but 10M pounds of the extra tax burden.

I shall, in due course, lay before the house an order, which will have the effect of continuing to zero-rate three important kinds of alterations which might otherwise be adversely affected by the House of Lords' judgment. These are the most commonly recognized forms of double glazing, loft and cavity wall insulation and damp-proof coursing. This useful simplification of the law will cost the revenue about 70M pounds a year.

The other kinds of nonstructural alternation covered by the judgment will become subject to VAT but, pending the completion of discussions with the industry, no steps will be taken to apply the tax before about the beginning of September.

My final proposal in this area concerns stamp duty on house purchase. I propose to raise the exemption by 5,000 pounds to 25,000 pounds and the other thresholds also by 5,000 pounds at a total cost of 70M pounds in 1982-83.

FOR OFFICIAL USE ONLY

This change should be widely welcomed. It will help to improve job mobility and give some encouragement to house construction. But most of all it will help those who have been saving to buy their first homes.

By the end of this parliament, nearly three out of every five families will own their own homes. This will represent a significant extension of the property-owning democracy.

Small Firms

And taken together, these proposals will mean more work for the construction industry, and more jobs for those who work in it.

Evident in the measures I have announced so far is the government's consistent determination to help create the right conditions for the new investment needed to create new jobs. But this budget, like its two predecessors, is designed also to provide a special tonic for small businesses.

There can be no doubt that higher rates of interest and the consequent reluctance of companies to borrow long-term at high fixed rates have caused a distortion of balance sheets. Too much reliance is now placed on short-term bank finance. As a result there is additional pressure on monetary growth.

A number of suggestions have been made for reducing the burden of interest rates on companies. We are all indebted to Mr Michael Gylls (North West Surrey, C) and others for the way in which they have focused public attention on this problem. In many cases, the selectivity in the remedies proposed would favour lending by the banks, and lending to "tax-exhausted" companies.

We have considered these ideas very carefully. But they raise difficult questions of principle, and we are not persuaded that they offer the best solutions to the problems they are designed to solve. Moreover consultations are still not complete on some corporation tax green paper, which raises major questions about incentives to investment, and we are still considering how best to ensure a proper contribution to tax revenue by the banking sector.

However, we can all agree that the basic problem of financing profitable expansion and investment demands urgent and continuing attention. A particularly important aspect of this is the provision of equity capital, about which I have some new proposals to make.

The business start-up scheme, which provides income tax relief for investment of up to 10,000 pounds in the equity of companies starting new trades, has been widely welcomed. I propose for 1982-83 and 1983-84 to increase the annual limit from 10,000 pounds to 20,000 pounds.

As less than a full year has elapsed since it became law, some potential investors may have been unable to use up the full 10,000 pound limit in 1981-82. I therefore propose that, in addition, any unused balance of this year's limit should be added to next year's. This means that, in some cases, the effective limit for 1982-83 will be as much as 30,000 pounds. These improvements should provide a further stimulus to investment in new enterprises.

FOR OFFICIAL USE ONLY

Where capital for small businesses generally is concerned, many people have emphasised the importance of the new provisions introduced in the 1981 companies act for companies purchasing their own shares.

Clearly it would be wrong to change the tax laws in such a way that these provisions could be used to pay out what would amount to tax-free dividends. But there is scope for tax changes which will significantly increase the attractions of equity capital, both to the investor and to the entrepreneur.

I now propose that certain purchases of their own shares by unquoted trading companies, mainly small and family businesses, should not be subject to ACT and income tax. They will be treated instead as sales of shares by the shareholder, and therefore, subject in most cases to capital gains tax only. This measure will be of special benefit to small companies which have a limited market for their shares.

Two years ago, I relaxed the conditions governing profit-sharing schemes and reintroduced legislation enabling employees to take up options to buy shares in their companies without incurring income tax liability.

I did this because I have no doubt that employees who own shares in the company for which they work develop a greater sense of commitment to the success of the business. Since I made my first changes two years ago, the increase in the numbers of employee share schemes has been extremely encouraging. In 1979 there were only thirty such schemes. Now there are over 400. This is exactly as we should wish.

Wider share ownership is good for the business, good for the worker and good for Britain. It is important to maintain and extend this progress.

Accordingly, I now propose to increase the value of shares that can be allocated each year to any one employee from 1,000 pounds to 1,250 pounds.

I also propose to amend the detailed rules to help simplify the administrative problems arising on rights issues.

We should also give some help and incentive to those who acquire share options outside the gambit of approved schemes. I therefore propose to make it easier for them to pay the income tax chargeable on the exercise of such an option, by providing that it should be collected over three years, rather than in a single sum.

In the last two years, we have substantially relaxed the rules for tax relief for interest on money borrowed to invest in small companies. This year I propose to move a stage further. If a shareholder works full-time in the management of a business he will in future be able to qualify for tax relief to invest in that business even though he does not have more than 5 percent of the shares.

Now, loan finance. In my last budget I announced the establishment of a pilot loan guarantee scheme. The scheme started in June 1981. Since then the demand for loans has far exceeded expectations.

FOR OFFICIAL USE ONLY

Last October, in response to that demand, we increased the allocation for the first year from 50 million pounds to 100 million pounds but with 2,700 loans worth almost 100 million pounds already approved after only nine months, some further increase is desirable.

Accordingly, I propose to increase the amount which the participating institutions may lend to 150 million pounds for the first year. In addition a further 150 million pounds will be available for loans under the scheme during its second year, to June 1983.

I also propose that the limits for the "small companies" rate of corporation tax should go up again from 80,000 pounds to 90,000 pounds and from 200,000 pounds to 225,000 pounds. This will mean that this government has increased the lower limit by 80 percent and the upper limit by more than 150 percent.

As a further help for new businesses, the period for income and corporation tax relief for pre-trading expenditure will be extended from one to three years.

Many MPS, I know, have been impressed by the value of the work done by local enterprise agencies. These agencies depend in the main on businesses already established in the local community. They clearly play a valuable part in helping small local firms to start and to prosper.

I therefore propose to allow businesses to deduct for tax purposes the contributions they make to certain enterprise agencies, which concentrate on helping small firms.

I hope this measure will encourage more widespread support for such agencies. The relief will be available from 31 March and will run for 10 years.

On VAT, I have two principal changes to propose. The registration threshold will be increased from 15,000 pounds to 17,000 pounds. And I propose to introduce VAT relief for services supplied before registration. This measure, and the extension of relief for pre-trading expenditure, will reduce the costs of starting a new business.

The total revenue cost of these measures to help small firms is about 80 million pounds in a full year.

I also want to make it easier for those who have recently left school or college to start a business. Hitherto they have not been able to qualify for the so-called 714 certificates under the construction industry tax deduction scheme. The present system, designed to prevent tax evasion, may actually keep young people out of work as sub-contractors in the industry.

The certificates are widely used in the industry but the existing rules require an individual to show that he already has three years good record as a taxpayer before he can secure a certificate. By definition, someone who has just left school or college cannot qualify under this three-year rule.

FOR OFFICIAL USE ONLY

I now propose to change it, so as to enable school and college leavers to obtain special certificates. I also propose a guarantee scheme which may help others to obtain these special certificates.

Finally, the self-employed. A decade of inflation has eaten into the value of money which they had put aside to provide for their retirement.

I, therefore, propose to increase the limits on retirement annuity relief for contributors who are now in their 50s and 60s; to 20 percent for those born between 1916 and 1933; to 21 percent for those born in 1914 or 1915; and to 24 percent for those born in 1912 or 1913.

I also propose to alter the present restrictions on the relief to allow more self-employed people to benefit from these higher levels. These changes will cost 12 million pounds in 1982-83 and 25 million pounds in a full year. They will provide a significant improvement in the position of the older contributor whose lifetime savings have suffered particularly from high rates of inflation in the 1970s.

The self-employed play a key role in the economy. Their contribution to its vitality, its adaptability, is apparent to all. Along with small businessmen, they fully merit this extra encouragement.

#### Capital Taxes

I turn now to a part of our tax system which is impeding the efficient working of capital markets and doing injustice to individuals and businesses alike: the capital taxes.

There is room for wide differences of view about the principle of taxing capital. But there is no case whatever for maintaining a system of capital taxes which, by holding back business success and penalizing personal endeavor, does serious economic and social damage.

In each of the last two budgets, we have taken significant steps to reduce such damage. I propose a stage further today.

The threshold for capital transfer tax will now be increased to 55,000 pounds. The rate bands which apply above the thresholds have remained virtually unaltered since the tax was introduced in 1975. It is time they were extended.

Under the new scale, details of which will appear in the FSBR, the top rate of tax will be reached at 2.5 million pounds. In real terms, this is still not as high as the figure set by my predecessor, when he introduced the tax, in 1975. The lifetime scale will be improved to a similar extent. The cost this year will be 35 million pounds; and in a full year 85 million pounds.

I also propose that the indexation principles, already applied to income tax allowances, should in future apply as well to the CTT threshold and bands.

I should add that it is my intention that the finance bill should deal with the new regime for settled property. Draft clauses were published in December.

FOR OFFICIAL USE ONLY

The comments we have received will help us to clarify and improve the provisions. They have more than justified this exercise in open government. I am grateful to all those who have contributed.

There will also be a number of technical provisions related to the heritage. I have decided, in the light particularly of the reductions in the lifetime rates of charge I made last year, not to alter the rate at which the periodic charge is payable.

I also propose that foreign currency accounts belonging to individuals who have no connexion with the United Kingdom should not be caught by the CTT. It is important for London's position as the world's leading financial centre that this matter should be cleared up.

I now come to the incidence of capital gains tax on inflationary gains. This is a matter which has rightly given rise to a great deal of discontent. No one has yet succeeded in finding a solution to this problem.

Innumerable proposals for full indexation, for tapering and other ingenious devices have been put forward. None, unfortunately overcame all the practical difficulties. I cannot, however, allow this injustice to continue, it is intolerable for people to be permanently condemned to pay tax on gains that are apparent but not real--that exist only on paper.

I propose, therefore, that, as from this April, gains, including those of companies, will in principle, be calculated after taking account of inflation which occurs after that date. No relief will, however, be given in respect of the first year of ownership.

The problem we seek to solve is one which relates essentially to assets held for a period of years, and it would not be appropriate to extend relief to assets bought and sold within a comparatively short period of time.

Because we have not found it possible to extend the new scheme to cover past gains, I propose also that the exempt slice should be increased to 5,000 pounds. That is the best solution to the problem and will simplify administration both for the taxpayer and the revenue. For the future, I intend that this threshold too should be statutorily indexed.

There will be no revenue cost in the coming year. In 1983-84 the cost of these two measures will be 55 million pounds.

But this ought not to be looked at as a measure of the cost to the Exchequer. It is rather a measure of the tax which ought never to have been levied in the first place. This change is no more than simple justice, which should be welcomed on all sides of the house.

The benefit of these measures will be of substantial help to business as well as the individual. They will significantly increase the attraction of equities to United Kingdom taxpayers. One result should be that companies can raise more equity at lower cost than would previously have been possible. An increase in the scale of equity issues by companies will help to reduce their dependence on bank borrowing.

FOR OFFICIAL USE ONLY

I also propose a number of other specific changes; in future, rollover relief will be available on compulsory purchase: and, completing our policy of avoiding a double charge to CGT and CTT on the one event, rollover relief will also be available on assets coming out of trust. These proposals involve no cost this coming year and a cost of 11 million pounds in 1983-84.

I believe that these changes, taken together, will be widely welcomed as a further major reform of the capital taxes.

Income Tax

But for the vast majority of individuals what really matters is income tax. And income tax is far and away the biggest source of government revenue. This year about 26 million income taxpayers will contribute, in round figures, about 30,000M pounds to the Exchequer.

Quite rightly, people look for some reduction in their own tax burden. As I have explained at the outset, and demonstrated by my own proposals, the paramount aim of this budget is to help industry, to encourage business, to create jobs. But I want also to assist people directly. The one helps the other.

People need industry: but industry also needs people--as workers, as customers, as investors. We remain firmly committed as ever, over the years, to reduce the burden of direct taxation. It is essential to do so: to improve incentives: to remove disincentives: to reduce the poverty trap.

There are always, of course, competing arguments as to whether one should reduce the rates of income tax or raise the threshold at which people pay tax. Any chancellor would like to be able to do both. But this year, given my principal aim, I have had to make a choice.

We have already reduced the basic rate of tax from 33 percent to 30 percent, and reduced the higher rates of tax as well. I propose, therefore, to concentrate the relief that is available this year on raising the tax thresholds.

The single personal allowance will accordingly be increased by 190 pounds to 1,565 pounds and the married allowance by 300 pounds to 3,445 pounds.

The additional allowance for single parents will, as a consequence, rise by 110 pounds to 880 pounds. So too will the widow's bereavement allowance. And there will be corresponding increases in the age allowances, the higher rate threshold and bands, and the threshold for the investment income surcharge. Effect will be given to changes under pay as from the first pay day after 26 April.

These increases are up to two percentage points more than the 12 percent required to take account of inflation in 1981. They are worth 1,800 million pounds this year and almost 2,500 million pounds in a full year.

As a result some 1,200,000 people who would have paid tax next year will not now have to do so. This news will be very welcome both to the house and to the country at large.



FOR OFFICIAL USE ONLY

In framing this year's budget it has been my purpose to give as much encouragement as I believe we can afford to an economy which is now moving in the right direction.

To hearken to the voices that urge us only to "borrow, borrow, borrow," would perform no service to British industry or to the unemployed. On the contrary, it would lead only to the dead end of a plummeting exchange rate or a rocketing rate of interest--or both.

Better by far to secure, as I have done, a prospective level of borrowing that is below that of the year now ending--and so to maintain our progress towards stable prices.

And at the same time, as in each of my three earlier budgets, to achieve substantial tax reforms, to promote the wider ownership of wealth, and to encourage the productive private sector, which in these past three years has made giant strides towards the restoration of our reputation as a trading nation.

This is a budget that will give confidence at home that growing markets will be there for those prepared to go out and win them and so a better prospect of employment opportunities for those who look only for the chance to work; and confidence abroad, to put a dismal record of performance behind us, once and for all.

This budget is designed to give that double boost to confidence. I commend it to the house and to the nation.

The chancellor spoke for one hour and 50 minutes.

COPYRIGHT: Times Newspapers Limited, 1982

CSO: 3120/48